

Message Text

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20/62

ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 FRB-01

INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04 SIL-01 L-02 H-02

DODE-00 PA-02 USIA-15 PRS-01 SAJ-01 /111 W

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R 072003Z MAR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 9073

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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C O R R E C T E D C O P Y ADDED LAST LINE OF TEXT

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MARCH 7

BEGIN SUMMARY: THE STOCK MARKET BOOM CONTINUES IN THE UK

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BUT THE OTHER ECONOMIC INDICATORS, EXCEPT INFLATION, STILL

POINT DOWNWARD. BUSINESS CONFIDENCE, THE INVESTMENT OUT-LOOK, AND EXPORT PROSPECTS CONTINUE TO SAG. THERE IS EVIDENCE OF LARGE INVENTORY DECUMULATION IN LATE 1974, AND IT IS NOT CERTAIN IT HAS LEVELED OFF. UNTIL IT DOES, OUTPUT WILL CONTINUE TO DECLINE. THERE IS SOME FEELING THAT CONSUMER SPENDING, WHICH HAS HELD UP RATHER WELL, IS BEGINNING TO WEAKEN. FISCAL POLICY IS EXPANSIONARY BUT PUBLIC SECTOR DEFICITS HAVE BEEN MAINLY FINANCED THROUGH STRONG SALES OF GOVERNMENT SECURITIES (GILTS) TO THE NON-BANK PUBLIC. MONETARY POLICY IS MORE CAUTIOUS AS INFLATIONARY PRESSURE IS STILL STRONG, FED MAINLY BY WAGE PRESSURES. BUT INTEREST RATES ARE DECLINING AND BANK OF ENGLAND RESTRICTIONS TO LIMIT THE GROWTH OF MONETARY AGGREGATES HAVE NOW BEEN SUSPENDED AS UNNECESSARY. THE "SOCIAL CONTRACT" CONTINUES TO RECEIVE MUCH ATTENTION FROM THE GOVERNMENT BUT LITTLE ADHERENCE FROM THE LARGE, STRONG PUBLIC SECTOR UNIONS. OTHER MODERATE GOVERNMENT MINISTERS HAVE SPOKEN OUT RECENTLY ON THE NEED FOR ADHERENCE TO THE CONTRACT, AND THEIR WORDS HAVE PROVOKED SOME PUBLIC CONTROVERSY AMONG CABINET MEMBERS. WAGE INCREASES IN THE PRIVATE SECTOR HAVE DECREASED MARKEDLY HOWEVER. FOREIGN EXCHANGE RESERVES INCREASED IN FEBRUARY AS A RESULT OF FOREIGN CURRENCY BORROWING BY THE PUBLIC SECTOR.

END SUMMARY

1. MONETARY POLICY. THE BANK OF ENGLAND (BOE) HAS SUSPENDED THE SUPPLEMENTARY SPECIAL DEPOSITS SCHEME IN WHICH BANKS WHOSE INTEREST BEARING LIABILITIES GROWTH EXCEEDED 1-1/2 PERCENT PER MONTH FROM THE FINAL QUARTER OF 1973 HAD TO PAY SPECIAL DEPOSITS TO BOE. THE BANK HAS ALSO SUSPENDED THE 9-1/2 PERCENT LIMIT ON THE RATES PAID TO SMALL DEPOSITORS. BOTH THESE CHANGES REFLECT THE SHARP DECLINE IN INTEREST RATES ABROAD AND IN THE UK AND THE LOW GROWTH OF THE MONEY SUPPLY IN THE UK. THE SPECIAL DEPOSIT SCHEME WAS INTRODUCED TO RESTRAIN THE GROWTH OF THE MONEY SUPPLY AND THE INTEREST RATE LIMIT TO STABILIZE THE HOME MORTGAGE MARKET.

2. INTEREST RATES. BARCLAYS BANK CUT ITS BASE LENDING RATE TO 10.75 PERCENT FROM 11.5 PERCENT. BARCLAYS ALSO

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LOWERED TO 8 PERCENT FROM 9 PERCENT THE RATE PAID ON TIME BANKS HAVE NOT YET FOLLOWED SUIT. THE BASE RATE WAS 12 PERCENT THROUGH MOST OF 1974 AND FELL TO 11-1/2 PERCENT IN JANUARY OF THIS YEAR.

3. BUSINESS CONFIDENCE. THE MONTHLY FINANCIAL TIMES SURVEY OF BUSINESS OPINION INDICATES FURTHER DECLINES IN CONFIDENCE AND BUSINESS PROSPECTS. EXPORT PROSPECTS ARE SEEN

FALLING AND NEW ORDER TRENDS HAVE COME DOWN IN THE LAST FOUR MONTHS. THERE ARE FEWER FIRMS NOW OPERATING AT CAPACITY AND INVENTORY LEVELS ARE STILL BELIEVED TOO HIGH.

4. INVESTMENT. MANUFACTURING INVESTMENT ROSE BY 10 PERCENT IN 1974 OVER 1973 WHILE TOTAL INVESTMENT ROSE BY ONLY 0.3 PERCENT. SURVEYS OF INVESTMENT INTENTIONS IN MANUFACTURING INDICATE A SHARP DROP OF 7 - 10 PERCENT THIS YEAR.

5. INVENTORIES. INVENTORIES OF FINISHED GOODS AT MANUFACTURING CONCERNS INCREASED BY 127 MILLION POUNDS (1970 PRICES) IN 3RD QUARTER 1974 AND BY 99 MILLION POUNDS IN 4TH QUARTER. RETAIL INVENTORIES OF SUCH GOODS DROPPED 28 MILLION AND 34 MILLION POUNDS IN THE TWO QUARTERS RES-

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PECTIVELY. INVENTORIES OF RAW MATERIALS FELL BY 46
MILLION POUNDS IN THE 4TH QUARTER AFTER AN INCREASE OF
103 MILLION POUNDS IN THE 3RD QUARTER.

6. OFFICIAL RESERVES. UK OFFICIAL RESERVES INCREASED BY
\$231 MILLION DURING FEBRUARY TO \$7,064 MILLION. THE IN-
CREASE RESULTED AFTER PUBLIC SECTOR FOREIGN CURRENCY
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BORROWINGS OF \$40 MILLION AND A \$300 MILLION
DRAWING ON THE HMG \$2.5 BILLION EURODOLLAR LOAN. THIS
\$300 MILLION REPRESENTED THE FINAL DRAW AND EXHAUSTED THE
TOTAL LOAN.

7. FOREIGN EXCHANGE AND GOLD:

	2/27	3/6	CHANGE
EXCHANGE RATE	\$2.4275	\$2.4285	UP \$0.0010
EFFECTIVE DEPRECIATION			
(PERCENT)	21.8	21.4	UP 0.4
GOLD	\$181.50	\$180.75	DOWN \$0.75

8. FORWARD DISCOUNT ON STERLING:

	2/27	3/6	CHANGE
1 MONTH	1.30	1.20	DOWN 0.10
3 MONTHS	3.50	3.55	UP 0.05
6 MONTHS	6.63	6.70	UP 0.07

(ALL FIGURES IN CENTS)

9. EURODOLLAR INTEREST RATES:

	2/27	3/6	CHANGE
1 MONTH	6-5/8	6-1/2	DOWN 1/8
3 MONTHS	7-1/2	7-1/4	DOWN 1/4
6 MONTHS	7-13/16	7-5/8	DOWN 3/16

10. LOCAL AUTHORITY DEPOSIT RATES:

	2/27	3/6	CHANGE
1 MONTH	11-1/4	10-3/4	DOWN 1/2
3 MONTHS	11-1/2	11-1/8	DOWN 3/8
6 MONTHS	11-1/2	11-3/16	DOWN 5/16

11. THE MINIMUM LENDING RATE DROPPED TO 10-1/4 PERCENT
FROM 10-1/2 PERCENT ON FRIDAY, MARCH 7, 1975.

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